RESEARCH REPORT

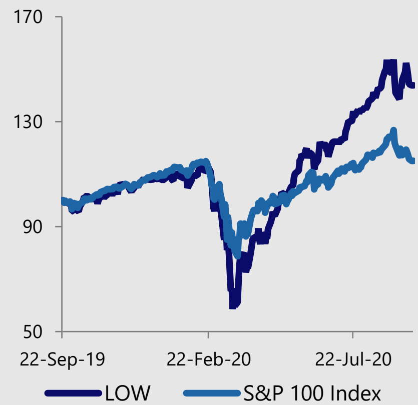
September 22, 2020

Stock Rating	BUY
Price Target	CAD $231.10
Current Price	CAD $159.60

Bear Case	Price Target	Bull Case
$166.85	$231.10	$256.18

Ticker	LOW
Market Cap (MM)	$120,615
P/E 2021E	21.8x
EV/EBITDA 2021E	13.8x

52 Week Performance



Lowe's Companies Inc.

Will the Stock Go Lowe(r)?

COVID-19 has created enormous change in the everyday life of individuals. One of the most significant changes has been the mass migration to online work, otherwise known as "Work from Home" ("WFH").

As the average person began spending more and more time at home, and possibilities to leave their home became limited, home improvement rose to the top of their mind. This created great gains for home improvement retailers like Lowe's. Q2 2020 saw a 30% increase in revenue from the same period last year.

This dramatic growth caught the attention of the Consumers team. After entering a position in Lowe's during the summer of 2020, it felt natural to look more deeply into how sustainable this growth could be. First and foremost, the Consumers team desired to evaluate the possibility of Lowe's having, or developing, a long-term competitive advantage. Home Depot has long been considered the industry leader in the home improvement space. If Lowe's manages to close the gap between itself and Home Depot, even marginally, shareholders will see substantial gains.

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Company Overview

Company History

Lowe's Companies ("LOW") is an American home improvement retailer, operating 1,728 stores in the United States, accounting for 93% of sales, as well as 249 in Canada, most under the RONA label. Each location features ~112,000 square feet of retail space, with an additional ~32,000 square feet of outdoor garden center selling space, stocking ~35,000 items.

The Company was founded in North Carolina in 1921 by L.S. Lowe as a hardware store. Over the next couple of decades, Carl Buchan would enter the business as a partner, eventually becoming the sole owner in 1952. Benefiting from the rise in home building after WWII, the Company grew serving a professional-focused customer base, and went public in 1961. The rise in North American home values carried the business into the 1980s, until the economic downturn, as well as the introduction of Home Depot in 1979, brought headwinds. Home Depot crafted larger, "big-box" style stores that Lowe's would come to adopt, as well as appealed more to professional customers, a segment Lowe's was phasing out of due to the decrease in home building activity. In the decades following, Lowe's would continue to be a dominant business in the home improvement retailing space, though Home Depot began to take the advantage. In 1994, Lowe's announced a "modern" phase was beginning, committing to only building stores in excess of 85,000 square feet, and detailing an expanded merchandise offering still focused on retail customers.

Leading up to the Great Recession, Lowe's began to close the gap with Home Depot during the replacement of long-time Home Depot senior management, but both businesses suffered during the crisis. Coming out, Home Depot was able to gain an edge, while growth began to mature in Lowe's retail customer pedigree. However, within the past couple of years, Lowe's has shifted to refocusing on professional customers, marked by investments in its distribution network as well as management changes, and is positioned to fiercely compete over the next decade.

EXHIBIT I

Company Timeline

60s 70s

"Building Materials Are Our Business, And Our Lowe Low Prices Mean Business" – 1966 Annual Report

The Company is growing rapidly and adding many products and supply chain abilities. Pro customers are the main market due to robust housing demand.

80s 90s

"What is past is prologue" – 1983 Annual Report

Lowe's begins the 80s with the goal to increase business on the retail side, citing increased profitability and lower cyclicality as the main drivers of the segment.

00s 10s

"Revitalising an intense focus on retail fundamentals" – 2019 Annual Report

With a new management team and outlook, Lowe's is ready to return to its former glory using a meticulous 4-prong strategy to attract customers and cut costs.

Source(s): Company Filings

Company Overview

Product Offering

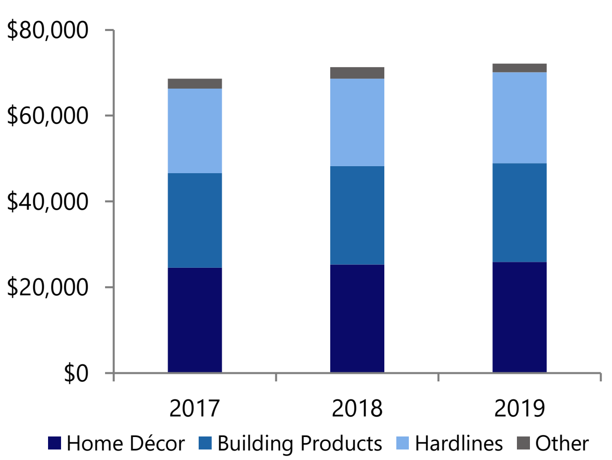
Lowe's sells a broad suite of home products meeting needs for construction, maintenance, repair, and decorating, to a split of 75% retail customers and 25% professional customers. Here, an important component of the offering is the mix of private label and national label products. The Company has a strong offering of national labels to service a wide range of customers, but has been adding more higher-margin, private labels. Additionally, the Company offers services for retail customers, including installation of appliances and other interior items by contractors, which accounts for ~6% of revenue. It also offers protection plans for most appliance and hardware products. Overall, through the consistent stocking of name-brand merchandise across North America, paired with a strong private label and services offering, Lowe's has a strong footing to appeal to both customer segments, and remain dominant in the coming years.

Sales Channels

Lowe's drives the majority of sales from its large scale physical stores, usually open seven days per week. Additionally, the Company has a comprehensive catalogue through its website and mobile application. Currently, Lowe's has mentioned that 70% of its online orders are either picked up by customers in-store or delivered from a store to the customer's home, speaking to the extreme importance of store presence even in online retail. Appealing to such a wide customer base for so many years, Lowe's has historically been starkly committed to training its employees and maintaining strong customer service. The Company has built contact centres to handle phone calls and fulfillment centres that can deliver to 90% of the postal codes in 48 hours at standard rates. Another key component of this offering is the launch of LowesForPros.com, a website dedicated to serving professional customers online.

EXHIBIT II

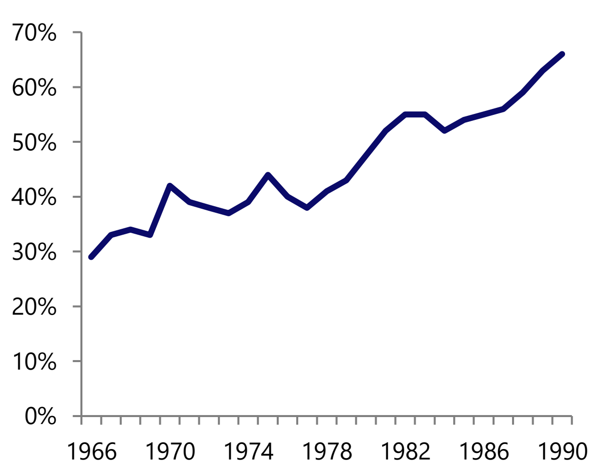
Revenue by Product Segment



Source(s): Company Filings

EXHIBIT III

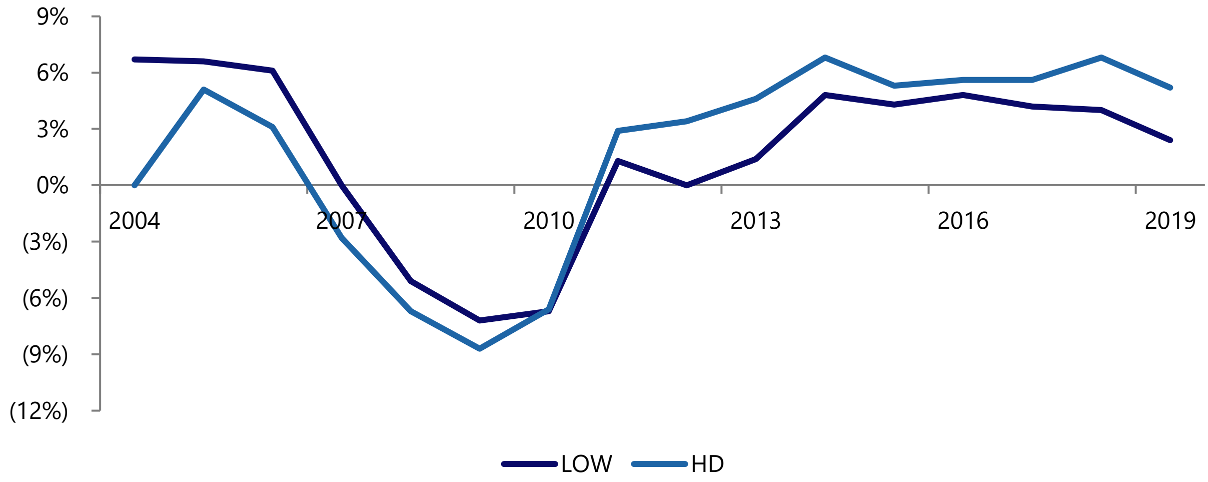
Retail Customer Sales % of Total Sales



Source(s): Company Filings

EXHIBIT IV

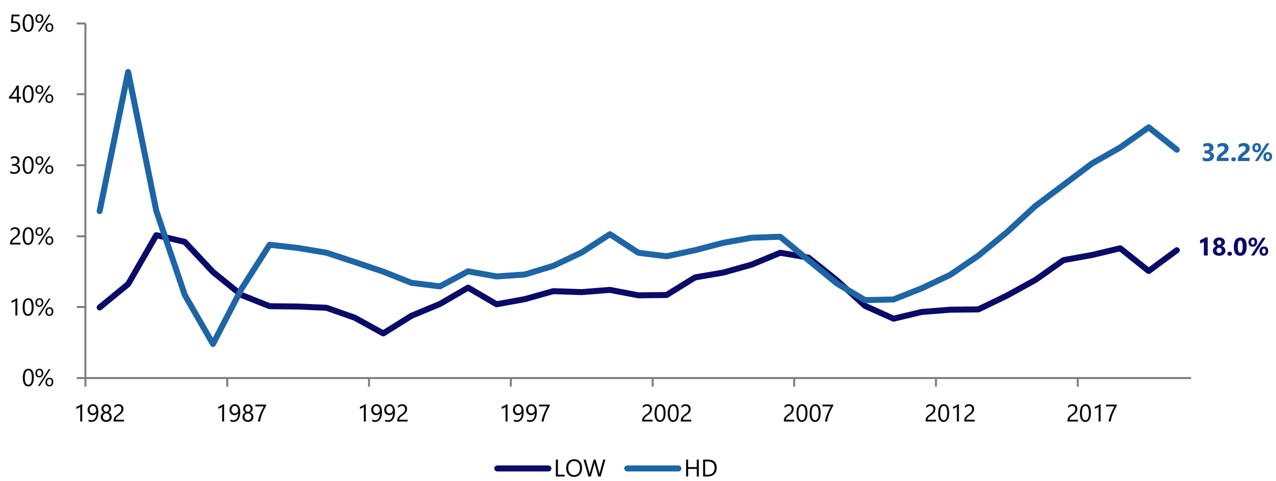
Strong Same Store Sales Growth (SSSG) Coming Out of the Recession



Source(s): S&P Capital IQ

EXHIBIT V

High Historical ROIC for Both Firms, Though HD has Outpaced LOW in Recent Years



Source(s): S&P Capital IQ

An Analysis of the Home Improvement Retail Industry

Market Size

Lowe's operates in the home improvement retail industry, which is comprised of building materials and supplies products including, among others, garden products and furniture, home furnishings, paints, lumber, power tools, home appliances, flooring materials, coatings, and electrical components. The Company competes with a number of retail and wholesale players including other home improvement retailers, mass merchandisers, specialty furnishing stores, hardware stores, and e-commerce retailers.

The estimated size of the U.S. market for home improvement is $407.1 billion in 2019 (Exhibit 1).

The Competition

In the home improvement sector of the U.S. retail economy, Lowe's and Home Depot control the lion's share of sales, together accounting for 50% of 2019 hardware and home improvement retail activity. While Home Depot is the world's leader in retail hardware with 2,291 big-box stores and $112 billion in revenues, Lowe's significant market presence results in a scale advantage that allows it to be a convenient and low-cost provider of home improvement products across its more than 2,000 stores and fully integrated mobile and online platform.

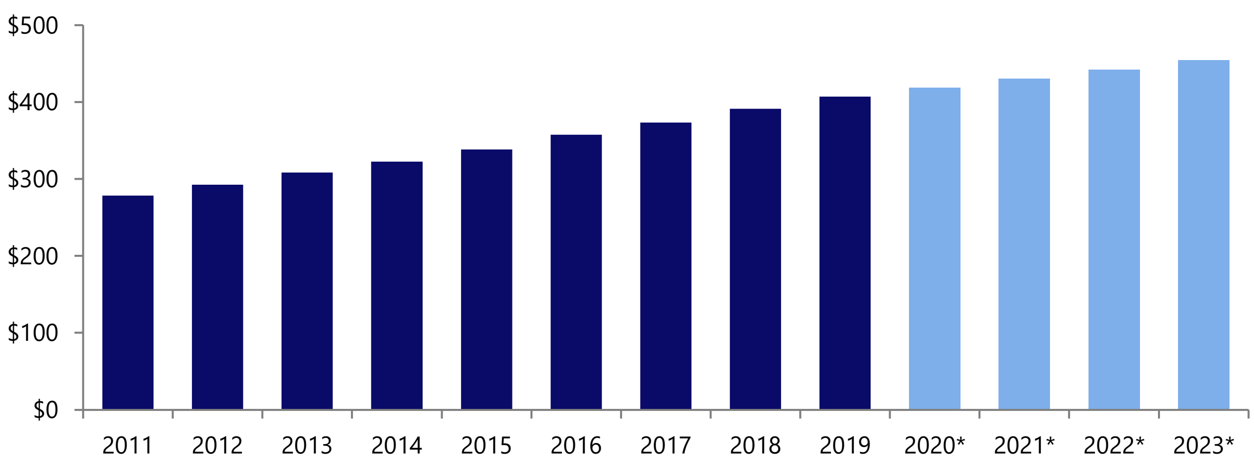
Industry Threats

The home improvement category is well insulated from the threat of online competitors, as a significant amount of the Company's products are either difficult and/or expensive to ship due to: their size (e.g., lumber and building materials, live plants), regulatory constraints (e.g., paint), installation requirements (e.g., appliances), and the combination of their low price point and heavy weight (e.g., nuts and bolts, concrete).

Moreover, a physical store presence is a competitive

EXHIBIT VI

Total sales of home improvement in the U.S. (in billion $USD)



Source(s): Statista

An Analysis of the Home Improvement Retail Industry

advantage in the home improvement category as customers frequently consult with store employees as part of their purchase process. Customers often prefer to see the product before they purchase it, or they drive to the store because they have an immediate need for the product. As a result, the home improvement category has one of the lowest levels of e-commerce penetration in retail.

Overall e-commerce competition in the category should remain limited in the future, but even if that is not the case, Lowe's online business is growing rapidly with a market share similar to its overall market share.

Key Trends

As a result of discretionary spending shifting away from the travel and entertainment category during the COVID-19 pandemic, consumers, with extra time on their hands, are relying on these two firms for supplies in order to make necessary repairs and upgrades to living areas. According to the U.S. Department of Labor, categories like home furnishings and gardening saw gains starting in May. This trend is expected to carry forward past the pandemic as consumers will continue to spend more YoY as they adopt a work-and-play-at-home lifestyle. Ultimately, the home improvement market has robust growth potential as consumers become increasingly motivated to invest in homes.

Furthermore, the fast approaching hurricane season in the U.S. will also act as a potential catalyst for heightened home improvement demand in Q3 as consumers make preparations (buy generators, lumber, provisions, etc.) as well as increase repair activity following a storm.

Customer Profile

The customers that this duopoly serves can be categorized as either retail or professional ("Pro").

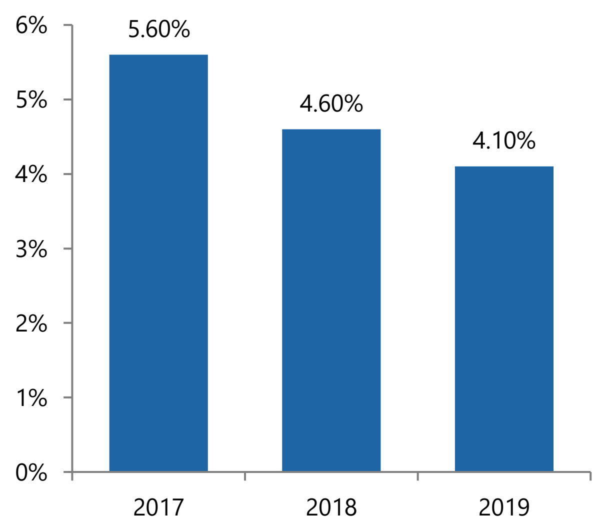
The retail customer consists of two distinct types: "do-it-for-me" (DIFM) customers that are more likely to pay extra for installation services and "do-it-yourself" (DIY) customers the prefer to undertake projects on their own.

Professional customers include contractors, repair remodelers and specialty tradesmen, as well as property management and facility maintenance professionals. These customers require more complex services such as the ability to have orders delivered directly to construction sites. Developing a supply chain that can successfully serve this segment is a challenge as contractors often need to know what is going to be available in-store further out than the average customer.

Pro customers have been a significant driver in Lowe's growth strategy. Retail customers tend to have a lower ticket size and their spending patterns are relatively more sporadic compared to the frequent and high value purchases of the Pro customers.

EXHIBIT VII

Growth of U.S. Home Improvement Market



Source(s): Statista

Catalyst I: The Composition of the North American Housing Stock

The current composition of the North American Housing stock provides a growth opportunity for the entire home improvement sector and by association, Lowe's. According to estimates by Freddie Mac, the current U.S. housing shortage is 2.5 million units, on a net basis. If one were to only consider states where a housing deficit exists, which is arguably more accurate as a housing surplus in one state does not necessarily compensate for a housing shortage in another, this deficit expands to 3.3 million units.

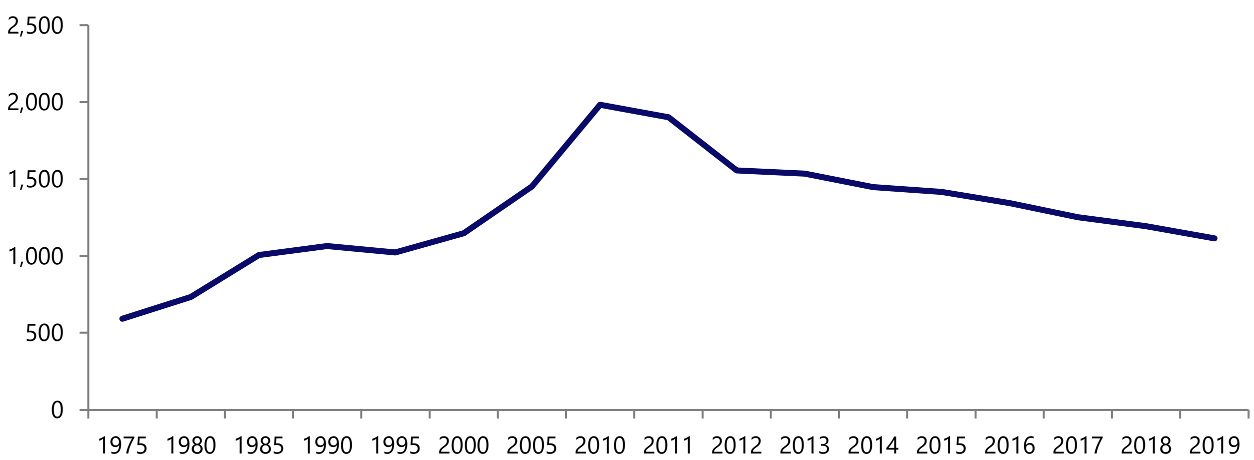
A confluence of factors has lead to this shortage of supply in the market. Firstly, the tightening of mortgage restrictions since the 2008 financial crisis has limited the buying power of potential homebuyers with poorer financials, generally millennials. Secondly, homebuilders, due to rising costs like land prices, are building more for the luxury end of the market, limiting affordable entry points to home ownership. This is exacerbated by the increase in activity of investors in the low-end of the market since the financial crisis. Thirdly, many homeowners are locked into low mortgage rates and are therefore disincentivized from selling their homes and locking in a new, likely higher, rate. This factor has eased due to the recent effects of COVID-19 on mortgage rates. Next, growing homeownership tenures, which is now at an average of 13 years, have further limited supply.

To heighten this shortage, COVID-19 limited housing starts, especially earlier in the year. As the pandemic has progressed, homebuilding has slowly regained strength. As well, it is projected that between 8.3 and 9.3M first-time homebuyers will enter the housing market in the next few years. According to 2019 predictions. It is currently unclear how coronavirus will impact these first-time buyers.

Eventually, supply and demand forces should cause the market to regain equilibrium. When this occurs, home improvement suppliers like Lowe's stand to benefit from an increase in the demand for its goods. The timing of this correction is difficult to predict but, in the long-term, this phenomenon should yield positive results for Lowe's.

EXHIBIT VIII

US Housing Units for Sale 1975-2019 (in thousands)



Source(s): Statista

Thesis I: Turnaround Strategy

Basis of the Turnaround Strategy

Generally, Lowe's has consistently underperformed its main competitor Home Depot, since the financial crisis. New management wants to change this. Marvin Ellison, President and CEO of Lowe's, has been in charge of the company since 2018. Prior to his appointment, Ellison spent time as CEO of JC Penney and notably, 12 years at Home Depot as executive vice-president of US stores. Previous to his work at Home Depot, Ellison spent 15 years at Target Corp in a variety of positions.

Since his appointment, Ellison has wasted no time in implementing a turnaround strategy. Ellison has divested many non-core assets. These include Orchard Hardware, a regional retailer, Iris by Lowe's, a home automation platform, the closure of 51 underperforming stores and a complete exit from Mexico.

The Retail Fundamental Strategy

Having limited the distractions generated from these non-core businesses, Ellison has managed to create a roadmap for surviving business lines called "The Retail Fundamental Strategy". The four prongs of this strategy are: Merchandising Excellence, which focuses on having the right products at the right time, Supply Chain Transformation, which acts to serve customers the way they want to be served, Operational Efficiency, to simplify store operations and improve in-stock execution and Customer Engagement, to improve customer engagement and fulfill Pro customer needs, hiring and developing associates focused on service and sales.

Merchandising Excellence

To address the first tenet, merchandising excellence, Ellison created a Merchandising Service team and Field Merchandising team. The employees on the Merchandising Service team will help to improve reset execution and in-store presentation and enable store associates to spend more time with customers. On the Field Merchandising team, the focus is improving localization and space productivity in store. Lowe's has also implemented a new pricing tool to help offset cost pressure.

Supply Chain Transformation

The second tenet of the turnaround strategy is Supply Chain Transformation. Currently, the main actions that Lowe's is undertaking to fulfill this goal are related to e-commerce. The company is committed to omni-channel growth and are undergoing a process of modernization to help support the platform. The Company plans to commit $1.7B to transform its supply chain in the next 5 years.

Operational Efficiency

To drive operational efficiency, Lowe's is working to improve store labour productivity by restructuring employee hours to better serve customers. Rather than the majority of store employee time being spent "tasking", the company is now splitting the time an employee spends tasking and spends with customers 50/50. The company has also overhauled its scheduling system in order to better serve customers during peak hours and limit unnecessary labour expenses.

Customer Engagement

Lastly, the Company has in place several initiatives to improve Customer Engagement. First, the company rolled out a new customer service model, complete with training for all company associates. In tandem to the new strategy, the Company also issued SMART mobile devices to allow associates to better serve customers. Perhaps as a result of these changes, customer service scores increased by 500 bps in FY2019. Specifically focusing on the Pro customer, the Company has implemented several changes which make Lowe's a smoother and more convenient process for Pro customers (i.e. Pro customer parking, loaders to assist Pros with bulky product, dedicated Pro department supervisors etc.).

Thesis I: Turnaround Strategy

The Pro customer segment has been growing and with new initiatives like Pro loyalty and adding more Pro-related products, this segment should continue to be a strong point of growth for Lowe's in the future.

Executive Overhaul

Additionally, Lowe's has been hiring new executives in key leadership roles. For example Marisa Thalberg, credited with reviving Taco Bell's brand as its former Chief Brand Officer, has been hired as the new CMO of the company. Thalberg's experience is diverse, but she has never worked in the home improvement space prior to Lowe's. This has signalled that Lowe's is focused on brand building, a transferable skill. The addition of an outsider to the industry should also promote outside-of-the-box thinking. Thalberg has spent time in the beauty space which should help prepare her for what analysts consider to be Lowe's next frontier: female shoppers. Female shoppers are an attractive market segment for home improvement stores. Women control or influence between 70-80% of all household spending. Home Depot began its efforts of attracting female shoppers in 2013. Lowe's has fallen behind with this crucial segment and so efforts to attract this group is critical.

The extent of the overhaul of executive leadership is evident by the sheer number of individuals that have been hired since Ellison's appointment of CEO in 2018. Some notable hires include the CFO, Executive VP of Merchandising, Executive VP of Supply Chain, Chief Information Officer, Executive VP of Stores

Dave Denton was hired in 2018 as the new CFO of Lowe's. Prior to joining Lowe's Denton was the executive vice president and CFO of CVS Health and has 25 years of finance and operational experience.

Bill Boltz, the Executive VP of Merchandising, also joined Lowe's in 2018. Bill has more than 30 years of experience in retail operations, marketing and merchandising and was most recently the president and CEO of Chevron North America. Prior to his experience at Chevron, Bill held many leadership roles in merchandising at Home Depot.

Donald Frieson, Executive Vice President of the Supply Chain was also hired in 2018. Frieson brings 30 years of supply chain and operations experience, including 19 years at Walmart.

Seemantini Godbole, Chief Information Officer at Lowe's was also hired in 2018. Godbole is responsible for the company's technology strategy and is therefore integral to the company's Retail Fundamental Strategy. With 25 years of technology experience, Godbole will work to serve Lowe's customers wherever and whenever they choose to shop. Prior to Lowe's, Godbole worked as the SVP of Digital and Marketing technology at Target.

Joseph McFarland III serves as the executive VP of stores at Lowe's. Like Ellison, McFarland is a prior Home Depot executive, where he spent 22 years. McFarland then followed Ellison to JC Penney and now to Lowe's.

The extent of commitment that Lowe's has shown to becoming a competitive industry rival to Home Depot is shown in the extent of the overhaul in the executive suite. Of the nine individuals credited as being part of executive leadership at Lowe's, 6 have joined the firm since 2018. This dramatic change of the Company's executive ensures one thing, if nothing else: Lowe's will change dramatically. Whether the change will be positive is unclear. The Consumers team believes that the change will in fact be positive. The leadership team that has been assembled has a wealth of experience at some of the world's leading companies. As well, given the prior experience of some executives at Home Depot, it is probable that some best practices from the industry leader will be incorporated into the firm. Overall, the Consumers team feels strongly that the new management team will be able to stimulate growth and create shareholder value through their detailed Retail Fundamental Strategy.

Valuation Summary

QUIC values Lowe's using a DCF and IRR-based approach. Like most most retailers, the core value drivers for Lowe's are sales volume and margin expansion.

We project sales growth of 16% in FY2020 due to the strong demand for home improvement products as a result of people spending more time at home. From FY2021 through FY2024 we expect sales growth to be slower than Lowe's historical average of ~5%, with growth eventually climbing back to 5% y/y by FY2025. In line with management's guidance, we project 2024 EBIT margins of 12% that will eventually rise to 15% by FY2029. We are confident that these figures can be achieved under management's turnaround strategy, especially considering Home Depot's current 14% operating margin.

Earnings per share for the first six months of FY2020 rose 26% y/y and Lowe's has significantly strengthened its competitive positioning versus Home Depot and smaller mom-and-pop retailers over the past 9 months. For these two reasons, we think Lowe's 33% YTD share price appreciation is justified, and believe there remains more room for the stock to run.

Our valuation arrives at a base case price target of $231.10 per share, assuming a discount rate of 8% and terminal growth of 2%. Our DCF model indicates a 30% discount to intrinsic value, and our IRR model implies an 18.5% annualized year rate of return through year-end 2024. We believe that Lowe's is a very high quality business poised for continued long-term growth, and will consider adding to the starter position that CONS initiated earlier this summer.

Present Value Summary - Sep 21, 2020	DCF Base Case	DCF Bear Case	DCF Bull Case
LOW Share Price @ Sep 21, 2020	$ 159.60	$ 159.60	$ 159.60
Present Value Output	$ 231.10	$ 166.85	$ 256.18
Discount to Intrinsic Value	**31%**	**4%**	**38%**

Key Assumptions	
Tax Rate	24.0%
Discount Rate	8.0%
Terminal Growth Rate	2.0%

Future Growth Summary - Sep 21, 2020	5Y IRR	10Y IRR
LOW Share Price @ Sep 21, 2020	$ 159.60	$ 159.60
Implied Equity Value per Share (Dec 2025 / Dec 2029)	$ 328.25	$ 482.61
Implied Rate of Return	**18.5%**	**12.7%**

Key Assumptions	
Tax Rate	24.0%
Terminal P/E Multiple	16.5x
Terminal Shares Outstanding	475m

Lowe's DCF Summary [Base Case]

(Figures in $US millions)	Historical Period			Projection Period									
	FY2017	FY2018	FY2019	FY2020E	FY2021E	FY2022E	FY2023E	FY2024E	FY2025E	FY2026E	FY2027E	FY2028E	FY2029E
Revenue	68,619	71,309	72,148	83,692	84,529	86,219	88,806	92,358	96,976	101,825	106,916	112,262	117,875
YoY Revenue Growth	*5.5%*	*3.9%*	*1.2%*	*16.0%*	*1.0%*	*2.0%*	*3.0%*	*4.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*
Cost of Goods Sold	46,185	48,401	49,205	56,910	57,057	57,767	59,056	60,956	63,762	66,695	70,030	73,531	77,208
Gross Profit	22,434	22,908	22,943	26,781	27,472	28,452	29,750	31,402	33,214	35,130	36,886	38,730	40,667
SG&A Expenses	14,444	17,413	15,367	17,575	17,751	18,106	18,205	18,472	18,910	19,347	19,779	20,207	20,628
EBITDA	7,990	5,495	7,576	9,206	9,721	10,346	11,545	12,930	14,304	15,783	17,107	18,523	20,039
EBITDA Margin	*12%*	*8%*	11%	*11.0%*	*11.5%*	*12.0%*	*13.0%*	*14.0%*	*14.8%*	*15.5%*	*16.0%*	*16.5%*	*17.0%*
Depreciation & Amortization	1,404	1,477	1,262	1,674	1,691	1,724	1,776	1,847	1,940	2,036	2,138	2,245	2,357
EBIT	6,586	4,018	6,314	7,532	8,030	8,622	9,769	11,083	12,364	13,746	14,968	16,278	17,681
EBIT Margin	*9.6%*	*5.6%*	*8.8%*	*9.0%*	*9.5%*	*10.0%*	*11.0%*	*12.0%*	*12.8%*	*13.5%*	*14.0%*	*14.5%*	*15.0%*
Taxes	2,042	1,080	1,342	1,623	1,741	1,879	2,149	2,456	2,754	3,075	3,357	3,659	3,984
Tax Rate	34%	32%	24%	24%	24%	24%	24%	24%	24%	24%	24%	24%	24%
NOPAT	4,544	2,938	4,979	5,909	6,289	6,743	7,620	8,627	9,611	10,672	11,612	12,619	13,698
Plus: D&A	1,404	1,477	1,262	1,674	1,691	1,724	1,776	1,847	1,940	2,036	2,138	2,245	2,357
Less: Changes to NWC	650	(945)	405	628	634	647	666	693	727	764	802	842	884
Less: Capital Expenditures	1,123	1,174	1,484	1,255	1,691	1,724	1,776	1,847	1,455	1,527	1,604	1,684	1,768
Unlevered Free Cash Flow	4,175	4,186	4,352	5,700	5,655	6,096	6,954	7,934	9,368	10,417	11,344	12,338	13,403
Discount Period				0.25	1.25	2.25	3.25	4.25	5.25	6.25	7.25	8.25	9.25
Present Value Factor				0.98	0.91	0.84	0.78	0.72	0.67	0.62	0.57	0.53	0.49
PV of UFCF				5,591	5,137	5,127	5,415	5,721	6,254	6,439	6,493	6,539	6,577

Valuation Summary: DCF Bear and Bull Case Scenarios

Lowe's DCF Summary [Bear Case]													
(Figures in $US millions)	Historical Period			Projection Period									
	FY2017	FY2018	FY2019	FY2020E	FY2021E	FY2022E	FY2023E	FY2024E	FY2025E	FY2026E	FY2027E	FY2028E	FY2029E
Revenue	68,619	71,309	72,148	83,692	84,529	86,219	88,806	91,470	94,214	97,040	99,952	102,950	106,039
YoY Revenue Growth	*5.5%*	*3.9%*	*1.2%*	*16.0%*	*1.0%*	*2.0%*	*3.0%*	*3.0%*	*3.0%*	*3.0%*	*3.0%*	*3.0%*	*3.0%*
Cost of Goods Sold	46,185	48,401	49,205	56,910	57,057	57,767	59,056	60,370	62,181	64,047	65,968	67,947	69,986
Gross Profit	22,434	22,908	22,943	26,781	27,472	28,452	29,750	31,100	32,033	32,994	33,984	35,003	36,053
SG&A Expenses	14,444	17,413	15,367	17,575	17,751	18,106	18,205	18,751	18,843	19,408	19,990	20,590	21,208
EBITDA	7,990	5,495	7,576	9,206	9,721	10,346	11,545	12,348	13,190	13,586	13,993	14,413	14,845
EBITDA Margin	*12%*	*8%*	11%	*11.0%*	*11.5%*	*12.0%*	*13.0%*	*13.5%*	*14.0%*	*14.0%*	*14.0%*	*14.0%*	*14.0%*
Depreciation & Amortization	1,404	1,477	1,262	1,674	1,691	1,724	1,776	1,829	1,884	1,941	1,999	2,059	2,121
EBIT	6,586	4,018	6,314	7,532	8,030	8,622	9,769	10,519	11,306	11,645	11,994	12,354	12,725
EBIT Margin	*9.6%*	*5.6%*	*8.8%*	*9.0%*	*9.5%*	*10.0%*	*11.0%*	*11.5%*	*12.0%*	*12.0%*	*12.0%*	*12.0%*	*12.0%*
Taxes	2,042	1,080	1,342	1,623	1,741	1,879	2,149	2,323	2,506	2,581	2,658	2,738	2,820
Tax Rate	34%	32%	24%	24%	24%	24%	24%	24%	24%	24%	24%	24%	24%
NOPAT	4,544	2,938	4,979	5,909	6,289	6,743	7,620	8,196	8,800	9,064	9,336	9,616	9,904
Plus: D&A	1,404	1,477	1,262	1,674	1,691	1,724	1,776	1,829	1,884	1,941	1,999	2,059	2,121
Less: Changes to NWC	650	(945)	405	837	845	862	888	915	942	970	1,000	1,030	1,060
Less: Capital Expenditures	1,123	1,174	1,484	1,255	1,691	1,724	1,776	1,829	1,413	1,456	1,499	1,544	1,591
Unlevered Free Cash Flow	4,175	4,186	4,352	5,491	5,444	5,881	6,732	7,281	8,329	8,579	8,836	9,101	9,374
Discount Period				0.25	1.25	2.25	3.25	4.25	5.25	6.25	7.25	8.25	9.25
Present Value Factor				0.98	0.91	0.84	0.78	0.72	0.67	0.62	0.57	0.53	0.49
PV of UFCF				5,386	4,945	4,946	5,242	5,250	5,561	5,303	5,058	4,823	4,600

Lowe's DCF Summary [Bull Case]													
(Figures in $US millions)	Historical Period			Projection Period									
	FY2017	FY2018	FY2019	FY2020E	FY2021E	FY2022E	FY2023E	FY2024E	FY2025E	FY2026E	FY2027E	FY2028E	FY2029E
Revenue	68,619	71,309	72,148	83,692	84,529	87,064	91,418	95,989	100,788	105,827	111,119	116,675	122,508
YoY Revenue Growth	*5.5%*	*3.9%*	*1.2%*	*16.0%*	*1.0%*	*3.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*
Cost of Goods Sold	46,185	48,401	49,205	56,910	57,057	58,333	60,793	63,352	66,268	69,317	72,505	75,839	79,630
Gross Profit	22,434	22,908	22,943	26,781	27,472	28,731	30,625	32,636	34,520	36,510	38,614	40,836	42,878
SG&A Expenses	14,444	17,413	15,367	17,575	17,751	17,848	18,284	18,718	19,150	19,578	20,001	20,418	20,826
EBITDA	7,990	5,495	7,576	9,206	9,721	10,883	12,341	13,918	15,370	16,932	18,612	20,418	22,052
EBITDA Margin	*12%*	*8%*	11%	*11.0%*	*11.5%*	*12.5%*	*13.5%*	*14.5%*	*15.3%*	*16.0%*	*16.8%*	*17.5%*	*18.0%*
Depreciation & Amortization	1,404	1,477	1,262	1,674	1,691	1,741	1,828	1,920	2,016	2,117	2,222	2,333	2,450
EBIT	6,586	4,018	6,314	7,532	8,030	9,142	10,513	11,999	13,354	14,816	16,390	18,085	19,601
EBIT Margin	*9.6%*	*5.6%*	*8.8%*	*9.0%*	*9.5%*	*10.5%*	*11.5%*	*12.5%*	*13.3%*	*14.0%*	*14.8%*	*15.5%*	*16.0%*
Taxes	2,042	1,080	1,342	1,623	1,741	2,002	2,322	2,668	2,983	3,323	3,689	4,083	4,434
Tax Rate	34%	32%	24%	24%	24%	24%	24%	24%	24%	24%	24%	24%	24%
NOPAT	4,544	2,938	4,979	5,909	6,289	7,140	8,191	9,330	10,372	11,493	12,701	14,001	15,167
Plus: D&A	1,404	1,477	1,262	1,674	1,691	1,741	1,828	1,920	2,016	2,117	2,222	2,333	2,450
Less: Changes to NWC	650	(945)	405	628	634	653	686	720	756	794	833	875	919
Less: Capital Expenditures	1,123	1,174	1,484	1,255	1,691	1,741	1,828	1,920	1,512	1,587	1,667	1,750	1,838
Unlevered Free Cash Flow	4,175	4,186	4,352	5,700	5,655	6,487	7,506	8,611	10,120	11,229	12,424	13,710	14,861
Discount Period				0.25	1.25	2.25	3.25	4.25	5.25	6.25	7.25	8.25	9.25
Present Value Factor				0.98	0.91	0.84	0.78	0.72	0.67	0.62	0.57	0.53	0.49
PV of UFCF				5,591	5,137	5,455	5,845	6,208	6,756	6,941	7,111	7,266	7,292

Valuation Summary: IRR Model

Lowe's IRR Summary [Base Case]													
(Figures in $US millions)		Historical Period						Projection Period					
	FY2017	FY2018	FY2019	FY2020E	FY2021E	FY2022E	FY2023E	FY2024E	FY2025E	FY2026E	FY2027E	FY2028E	FY2029E
Revenue	68,619	71,309	72,148	83,692	84,529	86,219	88,806	92,358	96,976	101,825	106,916	112,262	117,875
YoY Revenue Growth	*5.5%*	*3.9%*	*1.2%*	*16.0%*	*1.0%*	*2.0%*	*3.0%*	*4.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*
Cost of Goods Sold	46,185	48,401	49,205	56,910	57,057	57,767	59,056	60,956	63,762	66,695	70,030	73,531	77,208
Gross Profit	22,434	22,908	22,943	26,781	27,472	28,452	29,750	31,402	33,214	35,130	36,886	38,730	40,667
Gross Margin	*32.7%*	*32.1%*	31.8%	*32.0%*	*32.5%*	*33.0%*	*33.5%*	*34.0%*	*34.3%*	*34.5%*	*34.5%*	*34.5%*	*34.5%*
SG&A Expenses	14,444	17,413	15,367	17,575	17,751	18,106	18,205	18,472	18,910	19,347	19,779	20,207	20,628
EBITDA	7,990	5,495	7,576	9,206	9,721	10,346	11,545	12,930	14,304	15,783	17,107	18,523	20,039
EBITDA Margin	*12%*	*8%*	11%	*11.0%*	*11.5%*	*12.0%*	*13.0%*	*14.0%*	*14.8%*	*15.5%*	*16.0%*	*16.5%*	*17.0%*
YoY EBITDA Growth		-31%	38%	22%	6%	6%	12%	12%	11%	10%	8%	8%	8%
Depreciation & Amortization	1,404	1,477	1,262	1,674	1,691	1,724	1,776	1,847	1,940	2,036	2,138	2,245	2,357
EBIT	6,586	4,018	6,314	7,532	8,030	8,622	9,769	11,083	12,364	13,746	14,968	16,278	17,681
EBIT Margin	*9.6%*	*5.6%*	*8.8%*	*9.0%*	*9.5%*	*10.0%*	*11.0%*	*12.0%*	*12.8%*	*13.5%*	*14.0%*	*14.5%*	*15.0%*
Interest	633.0	624.0	691.0	768.7	776.3	791.9	815.6	848.2	890.7	935.2	982.0	1031.1	1082.6
% of Sales	*0.92%*	*0.88%*	*0.96%*	*0.92%*	*0.92%*	*0.92%*	*0.92%*	*0.92%*	*0.92%*	*0.92%*	*0.92%*	*0.92%*	*0.92%*
Taxes	2,042	1,080	1,342	1,614	1,731	1,869	2,137	2,443	2,738	3,058	3,338	3,639	3,961
Tax Rate	34%	32%	24%	24%	24%	24%	24%	24%	24%	24%	24%	24%	24%
Net Income	3,447	2,314	4,281	5,149	5,523	5,961	6,816	7,792	8,735	9,754	10,648	11,608	12,637
Diluted Shares Outstanding	843	815	780	753	715	680	646	613	583	554	526	500	475
Earnings Per Share	$ 4.09	$ 2.84	$ 5.49	$ 6.84	$ 7.72	$ 8.77	$ 10.56	$ 12.70	$ 14.99	$ 17.62	$ 20.25	$ 23.24	$ 26.63
P/E Multiple								25.0x					16.5x
Implied Share Price								$ 317.62					$ 439.37
Plus: Dividends	$ 1.58	$ 1.85	$ 2.13	$ 2.13	$ 2.45	$ 2.82	$ 3.24	$ 3.73	$ 4.28	$ 4.93	$ 5.67	$ 6.52	$ 7.49
Cumulative Dividends								$ 10.64					$ 43.25
Implied Equity Value per Share								$ 328.25					$ 482.61

References

1. Company Filings
2. RBC Capital Markets
3. Statista
4. S&P Capital IQ
5. Stifel
6. Third Bridge